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ANNUAL REPORT
OF
THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1941

Ending December 27, 1941

ANNUAL REPORT OF
THE KROGER GROCERY & BAKING COMPANY
FOR THE FISCAL YEAR 1941, ENDING DECEMBER 27, 1941

February 6, 1942

TO THE SHAREHOLDERS:

This report is for Kroger's fiscal year beginning December 29, 1940, and ending December 27, 1941, (52 weeks).

Sales for the fiscal year 1941 (52 weeks) were \$302,765,745, compared to sales for 1940 (52 weeks) of \$258,115,025, an increase of 17%.

Net income (after provision for Federal taxes on income and reserve for contingencies) for the fiscal year 1941 was \$4,970,102 or \$2.71 per share after preferred dividends, as compared to earnings for the fiscal year 1940 of \$4,607,126 or \$2.51 per share after preferred dividends, an increase of \$0.20 per share.

The aforesaid increase in earnings was obtained in spite of a material increase in operating expenses, including wages, taxes, and similar unavoidable costs. The increase in wage cost alone, in 1941 over 1940, was approximately three and one-half million dollars, or 10%.

The Piggly Wiggly balance sheet is consolidated in this statement, as in previous years. During the year 1941, Kroger disposed of a substantial number of shares of its holdings in the Piggly Wiggly Corporation. On the basis of the amount at which this stock was carried on the books of the Kroger Company, there was a small book profit in the sale; however, the original cost of the stock was very much greater than the amount for which it was sold. Therefore, for income tax purposes, a large loss resulted, which it is believed will reduce the income tax otherwise payable for the year 1941.

During the year, the Company arranged with banks for a "Revolving Loan" of \$8,000,000, available to the Company for a period of five years, on terms which we believe are advantageous to your Company. With the large increase in merchandise inventory, and the probability of even greater increase, your Board of Directors deemed it advisable that the Company be protected as to supply and cost of money, during that period.

At the close of 1941 our employees numbered 22,784, an increase of 2% during the year, as compared to an increase in sales of 17%. Our turnover of personnel in 1941 increased materially from the turnover in 1940, which was the lowest recorded in the history of the Company. This has been due to enlistment of our personnel in the armed forces of the United States and the withdrawal of large numbers of our employees, particularly in the most numerous class, store clerks, in order to accept more remunerative employment in defense industries.

This increase in turnover has presented a serious problem which will probably grow more serious as we pass completely from a peacetime to a wartime economy and social order. We are furnishing means of training substitutes for the vacancies which will occur and believe we are capable of handling our personnel problems in step with the rapidly changing times.

In common with all other peacetime industries, we will be faced with the problem of securing proper materials for the maintenance of our factory equipment and the operation of our various fleets of trucks, trailers and passenger automobiles. We feel that with our equipment of all sorts in first-class condition, and with the utmost care in the maintenance and use of this equipment, we will not be seriously hampered in our operations. Expansion of our manufacturing facilities, which had been planned and were at the threshold of being undertaken, has been abandoned for the present, due to uncertainty of obtaining priority orders for materials and a desire to forego any expansion which might interfere with the war effort of the United States.

As rapidly as possible after the Declaration of War, we instituted a system of voluntary payroll deductions for the purchase of Defense Bonds and Savings Stamps, which has met with a ready response from our employees. For many months, Defense Savings Stamps have been for sale in Kroger stores.

A system of conservation and economy of all materials, particularly rubber, metals and paper, has been instituted with constant supervision on each floor of our offices, and in each unit of operation of our factories and stores. The supervision is being carried on by our employees, who rotate in the office as supervisors, with authority to suggest methods for economy of materials and to criticize and correct any wasteful methods or habits.

In our annual report for the year 1939, I explained the development, under the guidance of the Kroger Food Foundation, of a patented process for tenderizing beef, known as the Tenderay Process. The use of this process in the territory served by Kroger was exclusive to Kroger, until January 1, 1942. The processing and merchandising of Tenderay beef in Kroger stores has caused a remarkable increase in Kroger beef sales. The Tenderay Process is being used to a limited extent by others than Kroger outside the territory served by it. The process will now be available for use by others in Kroger territory on a royalty basis.

We have recently acquired, subject to approval of title, a modern packing plant at Omaha, Nebraska, in order to furnish adequate supplies for our Tenderay beef plants, which are pushed to capacity due to increased sales of Tenderay beef.

On December 27, 1941, your Company had no commitments for the future purchase or sale of commodities which would materially affect its financial position or earnings.

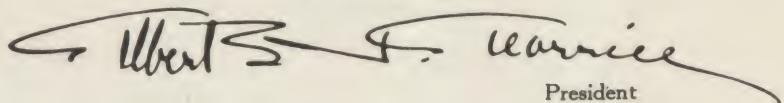
One of the nominees for the office of director, Mr. Joseph B. Hall, named in the accompanying Proxy Statement, was elected to the Board on December 12, 1941, and also elected a Vice-President, to fill the vacancy caused by the resignation of Mr. W. L. Campbell as director and Vice-President in charge of Kroger's Manufacturing Division. Mr. Hall has been connected with your Company for eleven years, and has moved successively from positions of minor importance to others of large responsibilities.

The war has created unsettled economic conditions. In view of present high prices, various economic uncertainties, taxes, and post-war adjustments, your Board of Directors has set aside a reserve for contingencies in the amount of \$2,000,000, the provision for which is shown as the last item in the Income Statement, submitted herewith. It is impossible, at this time, to assess even approximately the ultimate effect of war conditions on the various phases of our operations.

Your Company fortunately is engaged in an essential business, the processing and distribution of food. It is not conceivable that its volume or its methods will be destroyed or even seriously interfered with by war production. As in the past, your Company will give freely to the limit of its abilities, of its personnel, services and efforts to the Government and the war purposes generally.

The difficulties of the past year, which we fear will be increased during succeeding years, have been met by the personnel of your Company with determination, loyalty, resourcefulness and with good cheer. We are confident that the personnel will continue to function in the same manner, no matter how great may be the difficulties of the future.

Respectfully submitted,


President

ASSETS

Cash on hand and demand deposits.....		\$17,963,435
Notes and accounts receivable, less allowance for losses:		
Customers, including relief agencies.....	\$ 1,355,904	
Employees	14,391	
Vendors and others.....	724,009	2,094,304
Inventories of merchandise, at lower of cost or market.....		30,200,939
Store and general supplies.....		701,662
Prepaid insurance, rent, taxes, etc.....		290,136
TOTAL CURRENT ASSETS		51,250,476
 Deferred claims receivable, less allowance for losses.....		 9,606
Stocks, bonds, mortgage notes, etc., less allowance for losses.....		52,897
Common stock of company held for sale to officers and employees (13,689 shares) (See Note).....		358,162
FIXED ASSETS:		
Land and buildings, as appraised by The American Appraisal Company, Harry S. Cutmore and Associates, C. G. Richardson, C. E., and the real estate department of the company, as at January 1, 1933, with subsequent additions at cost:		
Land	1,366,634	
Buildings	\$10,348,457	
Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions at cost.....	22,530,445	
Automotive equipment, etc., at cost.....	4,327,450	
	37,206,352	
Less, allowance for depreciation and obsolescence	19,704,618	
	17,501,734	18,868,368
Deferred charges to future operations.....		790,016
		<u>\$71,329,525</u>

Note: At December 27, 1941, certain officers and employees held options to purchase 23,937 shares of common stock of the company at \$10.00 per share. Options may be exercised at present on 23,937 shares, and at April 2, 1942, on 23,937 shares.

TO THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Grocery & Baking Company and subsidiary (weeks) then ended. In connection therewith, we reviewed the systems of internal control and the accounting procedures and other supporting evidence of the companies, by methods and to the extent we deemed appropriate. Our examination of all procedures which we considered necessary.

In our opinion, the foregoing consolidated balance sheet and related consolidated statements of income and balance sheet as at December 27, 1941, and the consolidated results of their operations for the fiscal year then ended, in conformity with the accounting principles generally accepted in Cincinnati, Ohio,
February 4, 1942.

LIABILITIES

Accounts payable, vendors, etc.....		\$ 7,715,761
Accrued expenses, taxes, etc.....		2,946,456
Provision for Federal taxes, current and prior years.....		2,405,918
Dividends payable.....		13,759
TOTAL CURRENT LIABILITIES		13,081,894
Notes payable, banks; due October 15, 1946 (issued under loan agreement providing for payment at option of Company at any time prior thereto)		8,000,000
Reserves:		
For contingencies	\$ 2,000,000	
For risks not covered by insurance policies.....	463,754	2,463,754
Interest of minority stockholders in net tangible assets of Piggly Wiggly Corporation.....		169,613

CAPITAL

Preferred capital stock:

First preferred, 6% par \$100, authorized and issued 507 shares, less 3 shares in treasury, 504 shares outstanding	\$50,400	
Second preferred, 7% par \$100, 460 shares authorized and outstanding.....	46,000	96,400
Common capital stock without par value, authorized 3,000,000 shares, issued and outstanding 1,848,278 shares. (See Note).....		33,977,568
Earned surplus, as annexed.....	13,540,296	47,614,264
		<u><u>\$71,329,525</u></u>

to purchase 33,475 shares of the common stock of the company at \$25 per share, 1942, on 9,538 shares. All options expire not later than October 2, 1942.

companies as at December 27, 1941, and the consolidated statements of income and surplus for the fiscal year (fifty-two months) of the companies and, without making a detailed audit of the transactions, examined or tested accounting records. No opinion was made in accordance with generally accepted auditing standards applicable in the circumstances and included

plus present fairly the consolidated position of The Kroger Grocery & Baking Company and subsidiary companies at December 27, 1941, on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors.

**CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS
FOR THE FISCAL YEAR (FIFTY-TWO WEEKS) ENDED DECEMBER 27, 1941**

Net sales			\$302,765,745
Cost of sales, including warehousing and transportation expenses, excluding depreciation			245,380,083
			<u>57,385,662</u>
Operating, general and administrative expenses, excluding depreciation			46,431,554
Profit from operations before depreciation, net income of subsidiary companies and provision for Federal income taxes			<u>10,954,108</u>
Depreciation			2,676,321
			<u>8,277,787</u>
Net income of subsidiary companies (after depreciation of \$48,987, provision for Federal income taxes of \$180,500, and minority stockholders' interest in earnings of subsidiary company of \$7,270) and book profit on sale of a portion of investment in Piggly Wiggly Corporation			373,147
			<u>8,650,934</u>
Interest paid, less interest received			42,832
Income before provision for Federal income taxes, etc.			<u>8,608,102</u>
Provision for Federal taxes on income (including \$1,421,000 Federal excess profits taxes) (See Note)			1,638,000
			<u>6,970,102</u>
Provision for contingencies			2,000,000
			<u>4,970,102</u>
NET INCOME TO EARNED SURPLUS			
Earned surplus, December 29, 1940			12,244,575
			<u>17,214,677</u>
Cash dividends paid in the fiscal year ended December 27, 1941:			
First preferred \$6.00 per share	\$	3,033	
Second preferred \$7.00 per share		3,220	
Common \$2.00 per share		3,668,128	
		<u>3,674,381</u>	
Earned surplus, December 27, 1941			<u><u>\$13,540,296</u></u>

Note: Because of a loss sustained on the sale of a portion of the Kroger Company's investment in the capital stock of the Piggly Wiggly Corporation, the provision for Federal income taxes, shown above, is approximately \$1,940,000 less than would otherwise be required. This investment was carried on the books of the Kroger Company at an amount slightly less than the sale price, and the resultant small book profit is included in the Income Statement.

FINANCIAL AND OPERATING STATISTICS
FOR THE FISCAL YEARS 1934 TO 1941, INCLUSIVE

	1934	1935	1936	1937	1938	1939	1940	1941
PROFIT AND DIVIDENDS								
Final Net Profit to Earned Surplus Dollars per Common Share.....	2.31	2.25	1.91	1.62	2.05	3.02	2.51	2.71
—Total Dollars....	4,198,241	4,110,926	3,487,832	2,950,340	3,741,569	5,514,597	4,607,126	4,970,102
Cash Dividends Paid Dollars per Common Share	1.80	1.60	1.90	1.60	1.90	2.50	2.00	2.00
STOCK								
Number Shares Common Stock outstanding with Public—End of Year.....	1,810,293 ²⁰ / ₁₀₀	1,821,989	1,821,989	1,821,989	1,821,989	1,822,734	1,831,889	1,834,589
Number Shareholders — End of Year.....	20,633	22,537	24,535	26,226	25,983	25,202	25,681	26,173
SALES								
Total Sales—Dollars.....	221,175,330	229,907,884	242,273,498	248,444,230	231,295,622	243,356,605	258,115,025	302,765,745
Average Retail Sales—Dollars Per Store Per Week..	968	1,018	1,060	1,122	1,091	1,177	1,278	1,594
STORES								
In Operation at End of Year...	4,352	4,250	4,212	4,108	3,992	3,958	3,727	3,477
Average Number Operated During Year	4,356	4,286	4,239	4,169	4,032	3,943	3,846	3,601
EMPLOYEES								
Number Full-Time Employees at End of Year.....	22,023	21,611	21,429	21,515	20,498	21,691	22,358	22,784
BALANCE SHEET STATISTICS								
Current Ratio	4.35	4.85	4.22	4.63	4.49	4.27	3.76	3.92
Cash, U. S. Government and Municipal Securities: Dollars	9,091,800	10,837,664	9,943,788	12,123,820	14,889,287	13,132,832	11,507,754	17,963,435
Ratio to Current Liabilities..	1.21	1.57	1.20	1.64	1.87	1.52	1.15	1.37
Inventories—Dollars	20,916,910	20,129,097	22,692,864	19,985,345	18,851,393	21,566,958	23,667,892	30,200,939
Fixed Assets in Percent of Total Assets	28	28	27	27	25	30	31	26
Net Working Capital—Dollars.	25,202,194	26,550,609	26,734,286	26,878,892	27,801,102	28,227,897	27,615,402	38,168,582

The Kroger Grocery & Baking Company

Executive Offices: 35 East Seventh Street

CINCINNATI, OHIO

OFFICERS

ALBERT H. MORRILL, *President and General Manager*

CHARLES M. ROBERTSON,
Vice-President and Treasurer

JOHN H. SADLER,
Secretary and Assistant Treasurer

JOSEPH BAPPERT, *Vice-President*

F. M. GRIEME, *Assistant Treasurer*

JOSEPH B. HALL, *Vice-President*

T. S. BURNS, *Assistant Secretary*

J. M. MARKLEY, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, Cincinnati
President, The Mabley and Carew Co.

JOHN M. HANCOCK, New York
Partner, Lehman Brothers

JOSEPH BAPPERT,
*Vice-President and General Manager
Retail Division, The Kroger Grocery & Baking
Company*

CARL M. JACOBS, Cincinnati
Member, Frost & Jacobs

WALTER A. DRAPER, Cincinnati
President, The Cincinnati Street Railway Company

A. T. KEARNEY, Chicago
McKinsey, Kearney & Co.

CHARLES W. DUPUIS, Cincinnati
President, The Central Trust Company

CHESTER F. KROGER, Cincinnati
Capitalist

HARRY J. GILLIGAN, Cincinnati
John J. Gilligan & Son

ALBERT H. MORRILL, Cincinnati
*President, The Kroger Grocery & Baking Company;
Piggly-Wiggly Corporation*

JOSEPH B. HALL,
*Vice-President and General Manager
Manufacturing Division, The Kroger Grocery and
Baking Company*

CHARLES M. ROBERTSON, Cincinnati
*Vice-President and Treasurer,
The Kroger Grocery & Baking Company*

JOHN H. SADLER, Cincinnati
*Secretary and Ass't Treasurer,
The Kroger Grocery & Baking Company*

PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

GENERAL COUNSEL

Frost & Jacobs

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York